Attention:
British Columbia Securities Commission
Alberta Securities Commission
Financial and Consumer Affairs Authority of Saskatchewan
Manitoba Securities Commission
Ontario Securities Commission
Autorité des marchés financiers
Financial and Consumer Services Commission, New Brunswick
Superintendent of Securities, Department of Justice and Public Safety, Prince Edward Island
Nova Scotia Securities Commission
Securities Commission of Newfoundland and Labrador
Superintendent of Securities, Northwest Territories
Superintendent of Securities, Yukon
Superintendent of Securities, Nunavut

June 6, 2017

I consider myself one of the good guys. As per page 95 of the CSA consultation paper, I am making this submission on my own behalf. This September I will have been working for a mutual fund dealer for exactly 20 years. I also have been licensed to do life and disability insurance for most of that time. I graduated from the University of Alberta with a B.Comm in finance prior to financial advising. When I started, my wife, who is a medical doctor, and I decided I would work at home. We knew this would mean less income for us but since I have been able to be there for our daughters since birth, it has been worth it. Presently, I drive our daughters to gymnastics and dance, two of my many many obligations to them.

This letter will explain how I have run my financial advising practice and to give you several alternatives to banning embedded commissions, which I consider an unnecessary action that will hurt the small investor. I find the CSA consultation paper deficient in many ways which I will explain in the context of your main issues regarding embedded compensation. I will also suggest several regulations that will ensure investor interests are aligned with adviser and fund manager interests.

Issue 1 of CSA consultation paper - Embedded commissions raise conflicts of interest that misalign the interests of investment fund managers, dealers and representatives with those of investors.

I find the exact opposite in my practice. Since day one, I have always explained to each investor most of the information contained in the fund facts documents. I would sit with them and go through a prospectus (remember those) detailing how much I was paid, how DSC fees work, etc. Since I competed in the Olympics for curling, much of my client base comes from the curling community. I didn't want anyone to say I didn't disclose information about fees etc. I was very careful about this because a bad reputation would spread like wildfire in the curling network. I have always told my clients I will only deal with mutual funds and mutual fund companies that pay me exactly the same way and the vast majority do, so I have many options. When I buy a DSC fund, I have told clients I will only pick companies that pay 4.9% like Fidelity or 5% like

C.I. I have told them for every $1,000 invested this gives me $49 or $50. The difference is not enough to make me choose Fidelity over C.I. or vise versa or over anyone else. This means I will choose what is best for investors. This has given me an idea for a good regulation that will protect investors in this regard. Make the maximum DSC paid 5%. This way mutual fund companies can compete by reducing DSC but not increasing it. This will work for all forms of DSC. Another good regulation regarding DSC would be to put a maximum investment amount per household that can go into DSC. I have told my clients that once they invest $100,000, I will put all future purchases into FEL at no-load. This should be easy to maintain for compliance with our technology in databases. This is what makes it worthwhile to take the small investor. Also, I will only choose mutual fund companies that have a 6 or 7 year redemption fee schedule and the redemption fee has to be in line with the general practice in the industry. This leads to another good regulation. Since plenty of mutual fund companies have operated just fine on a 6 year schedule, make the maximum DSC schedule 6 years at the general market rate (to be determined) for redemption fees. You can find good average values for other load types, low load, etc. DSCs are far from perfect but at least an investor can get some money quickly in an emergency. Regulations such as these will only allow mutual fund companies to compete on performance which it should. Regulations SHOULD be there to take other incentives out of the hands of mutual fund companies to give to advisers. The focus on performance simply will align the goals of the mutual fund company, the adviser, and obviously, the investor.

One more thing: DSCs allow investors to put more into RRSPs which the small investor has trouble maximizing. I would rather put $10,000 in my RRSP and get a tax deduction on that amount rather than put $10,000 less my account fee in. RRSPs are not generally considered emergency money and therefore the DSC schedule is likely to get to 0% before the money is withdrawn especially after the majority of the portfolio is load free. That money gets withdrawn first.

This brings us to trailing commissions. When I started, the vast majority of trails, DSC and FEL, were about 0.5%. Of course that has changed to DSC at 0.5% and FEL to 1%. I have told my clients that I will only deal with mutual funds and fund companies that give a 1% trailer on FEL and 0.5% trailer on DSC. Again, a good regulation would be to make these amounts the maximum a mutual fund can pay so the mutual fund companies can compete on paying less but not more. One more note: I have told my clients that money market funds can pay less on the trailers and no DSC in some cases and these funds are generally seen as a short term investment with capital preservation so if they need this I can provide it. Other than the money market fund, I have told my clients from day one that no matter which mutual fund company I pick, fund company A, B. or C, I do not get paid any differently, I also do not get paid any differently no matter what risk level I pick. Therefore my only goal is to pick funds that will maximize client return for their individual risk level. If you use my suggested regulations, all advisers under this compensation model will act in this fashion. Fund managers will have no alternative but to make fund performance their top priority and advisers will migrate to the funds with proven fund managers.

One quick bit on the 10% free rule. I do this every year for my clients so they can have more load-free money in an emergency. The 10% free should not be a use it or lose it proposition but after 3 years you should have approximately 30% of your money available to you at no load.

This leads me to a discussion on mutual fund MERs. Being one of the good guys, I carry around the fund facts for the Brickburn Income Growth Class Fund. Its MER, as of April 30, 2014, is a whopping 6.11%. Wow!!! I show this to my clients because it lists my trailer fee as 1%. Again, I tell my clients I will only deal with funds that pay me the same trailer of 1%. Obviously, I would never pick this fund for a client. I tell them I look for funds that get as close as possible to a 2% MER and rarely go over a 2.5% MER, some managed ETF funds I buy are less than 2%. I am being the paid the same so why wouldn't I shop around for a lower MER? I want to keep my clients so I will do anything to increase the probability of good performance. There are plenty of excellent fund managers at this level so there is no need to go for a higher MER IF FUND FEES ARE TAKEN OUT OF THE ADVISER'S HANDS. The only thing that shocks me about Brickburn is they don't increase trails to advisers in an attempt to have advisers put their interests above the clients. With a MER over 6% they certainly should be able to afford that. If you put fees in adviser hands I think there will be more unethical adviser activity. Again, no matter which adviser compensation model you choose, there will be a small percentage of unethical advisers and clients will be taken advantage of. The best way to guard against this is the current MER with 1% trailer model and not allowing ANY additional fees (other than a small self direct fee) if someone purchases a mutual fund. This should be another regulation and will be the easiest way to seek out and remove the unethical advisers while putting client interests in line with ethical adviser interests. By the way, if MERs are generally in a 2% to 3% range, it is not from collusion or a lack of competition. There are many many mutual fund companies with thousands of funds. With low cost alternatives readily available, this is where fair competition puts MERs.

One extra thing to note about MERs. I have noticed that mutual funds, particularly at the banks, are generally at very similar levels to some funds I choose, many at around 2.5%. They are NOT paying trailers to anyone for these over the counter funds. Will removing trailers lower Bank MERs? That is doubtful. Perhaps a regulation that trailers can only be paid to advisers is in order. If a client purchases a fund, that I could provide, from a bank's discount brokerage, there isn't any advice given, why should the trailer be paid to the bank?

In conclusion, regarding issue 1 of the CSA consultation paper, this compensation model with the extra regulations I have suggested WILL align the interests of clients, advisers, and fund managers making portfolio performance everyone's primary concern.

Issue 2 of CSA consultation paper - Embedded commissions limit investor awareness, understanding and control of dealer compensation costs.

My clients are fully aware of how MER's work. I tell them if they got 10% in a mutual fund and the fund's MER is 2.5% then the fund manager got 12.5% return on the fund of which 1% goes to my mutual fund dealer and after they take out my overhead, I get the remainder. Also, again, from issue 1, I tell them if I get a DSC and what the DSC schedule is. Again, these get paid to my mutual fund dealer and after my overhead, the remainder comes to me. After the disclosure on the amount paid to my mutual fund dealer, I don't see how you can make investors any MORE aware of dealer compensation. After this knowledge, with the numerous other investment types such as ETFs, robo advisers, fee for service advisers, etc, etc, we have to ask ourselves why do investors stay with an adviser that has embedded commissions? ETFs like Bank of Montreal's S&P/TSX ETF has a 0.05% MER, practically free. ETF mutual funds have been around for over 20 years and ETFs are constantly advertised in the media so is it possible that investors haven't heard of them? The answer is of course no and, in the information age, anyone looking for understanding of compensation models can readily find it. Before I started working for a mutual fund dealer over 20 years ago, Altimara Investments, a mutual fund company, had a S&P index mutual fund with a 0.5% MER, very low. All the Banks have ETF mutual funds with very low MERs that you can buy over the counter so again, why would clients stay with an adviser that has embedded fees? The answer is simple, investors go where they think they will get the most return. In the information age with all the media advertising about alternatives, I refuse to believe they are unaware of the alternatives to embedded commissions and I refuse to believe they do not care enough about their savings to at least look into this issue.

In conclusion, regarding issue 2 of the CSA consultation paper, embedded commissions do NOT limit investor awareness, understanding and control of dealer compensation costs.

Issue 3 of CSA consultation paper - Embedded commissions paid generally do not align with the services provided to investors.

In my practice, I have clients that call me very often to very rarely. I call them all periodically but I obviously cannot force them to call me back. The clients that call me often get very good value for their embedded commissions. The clients that call me rarely have the right to call me as often as they want. They choose not to. So, why don't they leave and go to a compensation model that would benefit them? As stated in issue 2, I refuse to believe they are unaware of the compensation alternatives. In my opinion, they must believe I will get the maximum return for their portfolio and they must be satisfied with their portfolio knowledge or they would call me. Otherwise, why would they stay? Why wouldn't they pick up the phone and call me? Again, I refuse to believe they simply don't care enough about their investments to bother to pick up the phone. Canada is a free country, they CHOOSE not to call me back. If they believe they are getting the most return for their portfolio from me should the CSA force them to go to an alternative compensation model? Does the CSA believe investors lack the intelligence to move on their own and therefore have to force them to change? Again, in the information age, with all the alternatives available, the answer is obviously no.

In conclusion, regarding issue 3 of CSA consultation paper - Embedded commissions paid generally DO align with the services provided to investors.

On page 5 and again toward the end of the consultation paper the CSA stresses "We emphasize that we have not made a decision to discontinue embedded commissions." There are a few reasons why I feel like the decision to ban embedded commissions has already been made and we are simply going through the motions of consultation. On page 6 of the consultation paper, the CSA claim that they consider Canada to be a different market and "the potential impacts from similar reforms in Canada might not be the same." That certainly seems like a stretch. How can you prove that? "Might" not be the same? That sounds like lawyer speak to me. Change the regulation and HOPE for the best? Are statements in the consultation paper, like on page 98, "can lead to under performance" and on page 101 "may negatively affect investors" the type of language to support this argument? Also, I didn't see any references to studies that say, in the U.K., the small investor has been hurt other than on page 141 of the paper where it says there are "Higher advice costs for some". How many is some? Again, very vague. As we all know, there will be studies that agree with this conclusion and studies that disagree with this conclusion. The CSA has chosen to quote studies that support banning embedded commissions. Has the decision already been made? If so, this displays a liberal elite, nanny state attitude at the CSA. This is the way I view FAIR Canada. They seem to think they are protecting people who can't protect themselves. Again, as I have said previously, it assumes investors do not have the intelligence to make their own decisions so the nanny state must regulate on their behalf. As an investor, I find this assumption insulting. As previously stated, with alternative compensation models readily available during the information age, it simply doesn't stand.

One more note: I talked to another adviser that said if his wealthier clients want cuts to their fees he will increase fees to his less wealthy clients. He refuses to take a pay cut. This seems like one unintended consequence of banning embedded compensation. The small investor will end up paying more and if they can't afford it, they will be on their own. Wealthy people will always pay fees, lots of them, and there will always be unethical advisers that figure out how to work around the rules no matter which compensation structure you choose. Further to that, in the consultation paper, page 120, it says "Fee-based option not a true choice for everyone". As an adviser, if the ban does come into effect, I will be forced to stop working in this industry because I will not believe the CSA cares about the small investor or small adviser and are only interested in regulation for the sake of regulation. You will have lost one of the good guys. The CSA is supposed to make decisions on behalf of all its stakeholders, including investors and advisers. If not, then who are they working for? Bans lead to unintended consequences. Proper regulation of all the current forms of compensation is the correct way forward.

Thank you for your consideration.

Sincerely,
*Dan.*

**Dan Petryk**
Financial Advisor
Global Maxfin Investments Inc.